ALBERTA OPPORTUNITY COMPANY

Turning Opportunity into Enterprise

Alberta Opportunity Company

1997/98 Annual Report

*An alternate source
of business financing
since 1972.*

The purpose of Alberta Opportunity Company is to provide financial assistance and guidance for the development of Alberta business.

Priority is given to smaller businesses in rural communities which, although viable, are not able to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

ALBERTA OPPORTUNITY COMPANY

Turning Opportunity into Enterprise

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1997/98 Annual Report

Report from the Directors

We are pleased to report another successful year for Alberta Opportunity Company (AOC).

During the fiscal year ended March 31, 1998, we continued to fulfill our mandate to serve the people of Alberta by providing financing to those entrepreneurs who have promising business ideas, but cannot find the financing they need through conventional commercial financing sources. More than 300 entrepreneurs were so assisted during the year, joining the 8,000 other businesses that have been started or expanded with AOC financing over the past 25 years.

Achievement of Financial Objectives

Highlighting the year's operations, our lending activity to Alberta's entrepreneurs increased from the previous year by $8.1 million (21 percent), to a total of $46.3 million. This increase in lending further contributed to a 25 percent increase in our overall loan portfolio, which grew to $93.8 million at year end. Our Balance Sheet was strengthened as a result of this activity, and our retained earnings position now exceeds $20.7 million.

We continue to measure our achievements against performance indicators established in our annual Business Plan. For the year, actual results compare to these targets as follows:

Performance Indicator	Goal	Actual
New loans/guarantees	$30.8 million	$43.3 million
Export Financing	$ 3.5 million	$ 3.0 million
Operating Grant from Government	$ 6.7 million	$ 6.8 million
Net Cost to Government	$ 6.7 million	$ 2.1 million
Jobs created/preserved	2,300	2,544

These results confirm that there is still a need for our services, particularly in smaller centres which are sometimes overlooked by the major financial institutions. We should emphasize that we remain committed to these smaller centres, and have always collaborated with commercial lenders in identifying and structuring financing opportunities for entrepreneurs in these locations.

During fiscal 1998 we implemented a Balanced Scorecard performance measurement system to better measure the efficiency and effectiveness of our contribution and the impact of our borrowers on the economic development of Alberta. This Balanced Scorecard will help us address both our long term and short term objectives and strategies in the years to come.

During the year, we also undertook a survey of AOC's current borrowers, which showed that they generate annual gross revenues exceeding $600 million, of which $102 million are exports outside Alberta. This survey also found that over 7,000 people were employed representing an annual payroll of $129 million. Borrowers paid $7.1 million in corporate and local taxes, exclusive of any payroll, GST or other indirect taxes. As part of our ongoing performance measurement effort we will continue to report these, and other performance measures, to affirm our contribution to the continued growth of Alberta business.

Operational Effectiveness

This was also the first full year of operations under our revised organizational structure. As a result of this restructuring, we were able to streamline administration through information system improvements, shortened lines of communication in the approval process, and a "flatter" management structure. This new management structure has been very effective, and we will continue to seek and implement new ideas which allow us to provide better service at lower cost. Our ongoing goal is to maintain this effectiveness while holding true to both our mandate and prudent credit management practices.

The Road Ahead

Alberta's economy continues to grow and prosper through the notable contribution of our vibrant small business community. Despite some softening within the energy sector, AOC's portfolio of clients remains optimistic and well positioned to meet the challenges of the new millennium.

We believe our commitment to operational effectiveness and prudent loans system management sees us well placed to meet the needs of the business community we serve. At AOC, we continue to believe in the virtues of entrepreneurship and the essential role entrepreneurs play in the expansion and health of the provincial economy.

AOC will continue to concentrate on its core business of providing term loan assistance to viable small businesses unable to obtain financing from conventional lenders. The need for small business financing in Alberta, particularly in rural areas, remains strong. Activity levels in 1998 were among the highest in AOC's 25-year history. Demand from entrepreneurs for the services of AOC is expected to remain strong in 1999, with total loan and guarantee assistance targeted at $42.8 million.

We look forward to assisting Alberta's entrepreneurs to maintain our strong economic climate into the new millennium.

R Bell
Chair

J R Anderson
President and CEO

Management Discussion & Analysis

The detailed discussion and analysis in this section is provided to assist readers in their assessment and understanding of the results of operations and financial position of Alberta Opportunity Company (AOC). It also provides a review of AOC's risk management policies and an outlook for the future. This section should be read in conjunction with the audited Financial Statements and supporting notes reported on pages 7 to 18 of this report. Dollar amounts presented in the tables are in thousands.

Overview of 1998 Results

AOC's 25th anniversary year was very successful, with activity levels among the highest in the Company's history. In 1998, we placed 316 loans, bank guarantees and export guarantees which totalled $46.3 million and surpassed 1997 results by $8.1 million. This high level of lending activity resulted in a 25 percent growth in the size of our loan portfolio. A strong economy, low market interest rates, and the benefits of ongoing process re-engineering initiatives contributed to a net income of $4.7 million for the year, notwithstanding a decrease in grant assistance of $640,000. This compares to 1997 net income of $5.3 million.

Results of Operations

Income

AOC's income, net of interest expense, increased by 6.7 percent to $12.2 million in 1998. This increase is shown by income category in the following table:

	1998	1997	%Change
Interest Revenue	$ 8,829	$ 7,815	13.0 %
Interest Expense	4,077	4,300	(5.2)%
Net interest income	4,752	3,515	35.2 %
Application and processing fees	640	474	35.0 %
Grant from Province of Alberta	6,787	7,427	(8.6)%
Income net of interest expense	$12,179	$11,416	6.7 %

Interest revenue is earned from interest charged on outstanding loans and from cash deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund. Interest expense includes interest paid to the Province of Alberta on debenture and note borrowings. In 1998 net interest revenue increased by $1.2 million due to the growth in the loan portfolio, and reduced borrowing requirements due to strong cash flow and the increase in retained earnings position. The increase in application and processing fees is due to the high level of loan authorizations for the year. Grant from Province of Alberta is required to maintain the financial viability of AOC for providing assistance to small businesses. In 1998 the grant decreased by $0.6 million as planned for in our three-year business plan. Plans for 1999 are to reduce the grant by a further $1.4 million (20.3 percent).

Operating expenses

AOC's non-interest operating expenses increased by 23.0 percent to $7.5 million in 1998. Total non-interest operating expenses are shown by expense category in the following table:

	1998	1997	%Change
Operations (excluding salaries)	$ 2,061	$ 1,874	10.0 %
Salaries and benefits	3,275	4,091	(20.0)%
Charge for loan losses and losses on realization	2,152	122	1763.9 %
Total non-interest operating expenses	$ 7,488	$ 6,087	23.0 %

The increase in operations expense of $0.2 million is primarily due to a loss incurred on property held for sale. Improved business processes and computer technology upgrading supported a reduction in staff that was implemented March 31, 1997. In 1998 the total number of employees decreased by twenty-two (27.0 percent) resulting in a decrease in total salaries and benefits of $0.8 million. The charge for loan losses and losses on realization increased in 1998 by $2.0 million due to a general allowance for loss on the increased portion of the loan portfolio. In 1998 a conservative approach for providing allowances on impaired loans was maintained. Allowance for loan losses was established at 8.5 percent of the total loan portfolio in both 1998 and 1997.

Financing activities
Note and debenture debt was $77.8 million as at March 31, 1998, an increase of $16.5 million from March 31, 1997. This increase is related to the increase in the loan portfolio. As per agreement with the Alberta Heritage Savings and Trust Fund, the proceeds from loan prepayments by borrowers were used to make additional debenture payments of $6.4 million. Current financing needs were met by borrowing from the Province of Alberta at current market rates. As at March 31, 1998 the weighted average interest rate on notes and debentures payable was 5.6 percent compared to 6.2 percent at March 31, 1997. The weighted average interest rate on loans receivable was 9.3 percent as at March 31, 1998 and 9.7 percent as at March 31, 1997.

Risk Management
AOC's framework of risk management includes processes for the evaluation and acceptance of risk within appropriate limits in the areas of credit risk, interest rate risk and operational risk.

Credit risk is the risk that AOC will incur a loss due to the failure of a borrower to meet its loan obligations. The risk range in which AOC operates tends to be higher than that of the banking sector or other conventional financing institutions. This is because the mandate of AOC is to provide loans to Alberta businesses that have viable business proposals, when such support is not available from conventional lenders. Standards that are applied in the management of credit risk include:

- clear communication to credit officers of lending policies, security requirements and operating procedures;
- competency requirements for all officers whose responsibilities include evaluation of credit risk, and delegation of decision-making authority consistent with demonstrated ability;
- disciplined decision-making with loan proposals evaluated by a minimum of two officers. In the case of all large loans, approval from a committee of senior management or the Board of Directors is required;
- prompt recognition, regular monitoring and timely valuation of problem accounts.

Interest rate risk refers to the sensitivity of net interest income to changes in interest rates. This risk is managed by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to balance the average terms of AOC's loan portfolio while maintaining an appropriate interest spread.

Operational risk is the potential for loss as a result of a breakdown in information or transaction processing or legal compliance systems due to procedural or systems failures, errors, natural disasters or fraudulent activity. Operational risk is managed by a system of internal controls that requires segregation of duties, clearly established authorities, documentation of policies, procedures and code of conduct, accounting and record-keeping systems, financial and managerial reporting, back-up procedures and insurance coverage.

Future Outlook

Demand for small business financing in Alberta is expected to remain strong in 1999. Maintaining tight operational cost controls and effective use of available resources are of utmost importance in order to maintain or increase lending activity levels with reduced grant assistance. Major changes in 1999 involve improvements in technology. Updated computer systems, which include a comprehensive management information system, will enable us to make further gains in productivity and decision-making effectiveness.

Management's Responsibility for Financial Information

The accompanying financial statements of Alberta Opportunity Company and all information in this annual report are the responsibility of the Company's management and have been reviewed and approved by the Board of Directors. The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and necessarily include some amounts that are based on informed judgments and best estimates of management. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

The Board of Directors is responsible for ensuring management fulfils its responsibilities for financial reporting and internal control and exercises this responsibility through the Budget and Audit Committee of the Board, which is composed of Directors who are not employees of the Company. The Budget and Audit Committee meets regularly with management and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Budget and Audit Committee.

The Auditor General of Alberta, the Company's independent auditor, is responsible for auditing the transactions and financial statements of the Company and for issuing an opinion thereon.

R. Bell

Chair

Chair

President and CEO

Auditor's Report

AUDITOR
GENERAL
Alberta

To the Board of Directors of Alberta Opportunity Company

I have audited the balance sheet of Alberta Opportunity Company as at March 31, 1998 and the statements of income, expense and retained earnings and changes in financial position for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 1998 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

Peter Valentine

FCA
Auditor General

Edmonton, Alberta
April 30, 1998

Balance Sheet

March 31, 1998 (in thousands)

	1998	1997
ASSETS		
Cash	$ 5,300	$ 3,722
Deferred charges and accounts receivable	869	399
Property held for sale (Note 3)	154	196
Loans receivable (Note 4)	93,755	75,003
Capital assets (Note 6)	823	709
	$ 100,901	$ 80,029
LIABILITIES AND RETAINED EARNINGS		
Accounts payable and accrued expenses	$ 1,873	$ 1,931
Notes and debentures payable (Notes 7 and 11)	77,760	61,235
Pension obligations (Note 8)	508	794
	80,141	63,960
Retained earnings	20,760	16,069
	$ 100,901	$ 80,029

Approved on behalf of the Board of Directors:

R Bell

Chair

J R Anderson

President and CEO

The accompanying notes are part of these financial statements.

Statement of Income, Expense and Retained Earnings

for the year ended March 31, 1998 (in thousands)

	1998		1997
	Budget (Note 14)	Actual	Actual
NET INTEREST INCOME			
Interest income	$ 7,228	$ 8,829	$ 7,815
Interest expense	4,084	4,077	4,300
	3,144	4,752	3,515
OTHER INCOME			
Application and processing fees	485	640	474
Grant from the Province of Alberta for the assistance of small business	6,673	6,787	7,427
	7,158	7,427	7,901
NON-INTEREST EXPENSE			
Operations (Note 10)	6,931	5,336	5,965
Charge for loan losses and losses on realization (Note 3 and 5)	3,371	2,152	122
	10,302	7,488	6,087
NET INCOME FOR THE YEAR	$ -	4,691	5,329
Retained earnings, beginning of year		16,069	10,740
RETAINED EARNINGS, END OF YEAR		$ 20,760	$ 16,069

Statement of Changes in Financial Position

for the year ended March 31, 1998 (in thousands)

	1998		1997
	Budget (Note 14)	Actual	Actual
Cash provided by (used for):			
OPERATING ACTIVITIES			
Net income for the year	$ -	$ 4,691	$ 5,329
Recoveries of loans written off	400	464	311
Items not involving cash:			
Charge for loan losses and losses on realization	3,371	2,152	122
Loss (gain) on property held for sale	40	285	(7)
Amortization of capital assets	195	153	131
Amortization of deferred charges and note discounts	-	556	69
Pension liability decrease	-	(286)	(273)
Net change in other assets and liabilities	-	(227)	134
	4,006	7,788	5,816
INVESTING ACTIVITIES			
Loans disbursed	(27,750)	(43,998)	(25,518)
Proceeds from repayment of loans receivable	23,006	22,811	26,049
Acquisition of property	(600)	(1,755)	-
Proceeds from sale of property	500	1,548	288
Purchase of capital assets	(150)	(272)	(314)
Other	(500)	(221)	(75)
	(5,494)	(21,887)	430
FINANCING ACTIVITIES			
Proceeds from notes	14,000	63,342	18,871
Repayment of notes	(6,600)	(34,900)	(3,405)
Repayment of debentures	(5,970)	(12,765)	(19,866)
	1,430	15,677	(4,400)
Increase (decrease) in cash	$ (58)	1,578	1,846
Cash at beginning of year		3,722	1,876
Cash at end of year		$ 5,300	$ 3,722

Notes to the Financial Statements

March 31, 1998 (tabular amounts in thousands of dollars)

1 Authority and purpose

Alberta Opportunity Company operates under the authority of the Alberta Opportunity Fund Act, Chapter A-34, Revised Statutes of Alberta 1980, as amended.

The purpose of the Company is to provide financial assistance and guidance for the development of Alberta business. Priority is given to smaller businesses in rural communities which, although viable, are unable to obtain financing from conventional institutions. Priority is also given to Alberta-owned businesses which will create jobs, are introducing improvements in productivity or technology, or have export or tourism potential.

The Province of Alberta maintains the financial viability of the Company by granting money appropriated for this purpose.

2 Significant accounting policies

Deferred charges:

Deferred discounts and issue costs arising on the issue of notes payable are amortized on a straight-line basis over the term to maturity and charged to interest expense.

Property held for sale:

Property held for sale is valued at the lower of cost and estimated net realizable value. Operating costs less rental revenues are added to the cost of the properties. Changes in the allowance for losses on realization are reflected in income.

Loans receivable:

Interest revenue is accrued on loans until such time as a loan is classified as impaired. Interest income is not recognized on impaired loans until such time as the charges for loan impairment have been reversed.

The allowance for loan losses represents Management's best estimate of probable losses on loans outstanding. The allowance has a specific and a general component. The specific allowance is established following a detailed review on a loan-by-loan basis wherein the discounted future cash flows and the fair value of the security underlying the loan are determined. The general allowance is based on historical experience to cover losses that have not been specifically identified. Changes in the allowance for loan losses are reflected in income.

Capital assets:

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and office equipment	-	15%
Computer equipment and software	-	20%
Leasehold improvements	-	term of each lease

Pension costs:

Pension costs comprise: the cost of pension benefits earned by employees during the year; interest on the Company's share of the unfunded pension liability; the amortization of deferred adjustments over the expected average remaining service life of employees which relate to the long term; adjustments to the pension obligation recognized immediately if there is reasonable assurance that a gain or loss has been realized; and the effect of the change in the ratio used to allocate the plan's total unfunded liability to participating entities. The net expense or recovery is included as part of salaries and benefits.

Operating grant:

The grant from the Province of Alberta is recorded as revenue in the year for which it is approved.

3 Property held for sale

	1998	1997
Cost	$ 699	$ 849
Less allowance for losses on realization		
Allowance, beginning of year	653	675
Charge for losses on realization	66	29
Reversal on sale	(174)	(51)
Allowance, end of year	545	653
	$ 154	$ 196

4 Loans receivable

	1998	1997
Loans and accrued interest receivable	$ 96,550	$ 72,528
Impaired loans	6,087	9,630
	102,637	82,158
Less allowance for loan losses (Note 5)		
Specific allowance	3,233	3,916
General allowance	5,649	3,239
	8,882	7,155
	$ 93,755	$ 75,003

Loans have an average term of between four and five years and are secured by general security agreements, land mortgages, debentures and guarantees. Loans generate a weighted average interest return of 9.3% (9.7% in 1997).

5 Allowance for loan losses

	1998	1997
Allowance, beginning of year	$ 7,155	$ 8,152
Charge for loan losses	2,086	93
Write-offs	(823)	(1,401)
Recoveries of amounts previously written off	464	311
Allowance, end of year	$ 8,882	$ 7,155

6 Capital assets

	1998			1997
	Cost	Accumulated amortization	Net book value	Net book value
Equipment and software	$ 1,561	$ 780	$ 781	$ 655
Leasehold improvements	164	122	42	54
	$ 1,725	$ 902	$ 823	$ 709

Equipment and software includes approximately $456,000.00 in software at cost which is not being amortized due to being under development.

7 Notes and debentures payable

Notes are payable to the Province of Alberta. Debentures are payable to the Province of Alberta and held by the Alberta Heritage Savings Trust Fund.

Series	Maturity dates	Interest rates	1998	1997
Debenture E	March 31, 1999	7.71%	$ 4,814	$ 15,370
Debenture F	September 30, 1998	7.05%	1,163	3,372
Note 001	February 15, 2001	5.65%	11,720	15,320
Note 002	March 29, 2001	6.75%	8,000	8,000
Note 003	December 19, 1997	Discount note-3.66% yield	-	3,000
Note 004	March 3, 1998	Discount note-3.67% yield	-	3,100
Note 005	March 27, 2002	5.44%	13,250	13,250
Note 008	September 30, 2002	5.00%	12,240	-
Note 010	December 17, 1998	Discount note-5.28% yield	4,300	-
Note 012	March 2, 1999	Discount note-5.18% yield	3,300	-
Note 013	March 31, 2003	5.00%	14,200	-
Note 014	September 30, 1998	Discount note-4.85% yield	5,200	-
			78,187	61,412
Less unamortized discounts			427	177
			$ 77,760	$ 61,235

Scheduled principal repayments are as follows:

1999	$ 22,155
2000	4,024
2001	11,891
2002	13,250
2003	26,440
	$ 77,760

8 Pension obligations

The Company participates with other employers in the Public Service Pension Plan and the Management Employees Pension Plan. These plans provide pensions for the Company's employees based on years of service and earnings.

The Company had an unfunded pension liability for each plan as at March 31 which was estimated as follows:

	1998	1997
Public Service Pension Plan	$ 65	$ 126
Management Employees Pension Plan	443	668
	$ 508	$ 794

The total unfunded pension liability for each plan as at March 31, 1998 was determined by actuarial valuation as at December 31, 1995 for the Public Service Pension Plan and as at December 31, 1996 for the Management Employees Pension Plan, both extrapolated to March 31, 1998. (The 1997 comparatives were determined using valuations extrapolated forward to March 31, 1997.)

The actuarial valuations were determined using the projected benefit method prorated on service. Assumptions used in the valuations are based on each Pension Board's best estimate of future events. Each Plans' future experience will inevitably vary, perhaps significantly, from the assumptions. Any difference between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses which relate to the long term are amortized over the expected average remaining service life of the employee group. Gains and losses for which there is reasonable assurance regarding their measurement and realization are recognized in income immediately.

The Public Sector Pension Plans Act specifies the basis to determine the amount of the total unfunded liability for each plan that will be funded by employers. The Company's portion of those employers' liabilities was based on the Company's percentage of the total pensionable payroll of all employers in each Plan.

9 Board fees, salaries and benefits

	1998				1997	
	Number of individuals	Salary[a]	Benefits[b]	Total	Number of individuals	Total
Chairman of the Board	1	$ 7	$ -	$ 7	1	$ 16
Board Members	7	38	-	38	8	67
Total Board fees	8	$ 45	$ -	$ 45	9	$ 83
President and CEO[c]	1	$ 99	$ 14	$ 113	1	$ 110
Sr. Vice President and Regional Vice President, South	1	99	15	114	1	103
Regional Vice President, North	1	94	14	108	1	98
Senior Manager, Support Services (position effective June 1, 1997)	1	74	15	89	-	-
Chief Financial Officer[d]	1	70	17	87	1	52
Other managers (average 1998 $80, 1997 $71)	15	985	221	1,206	14	996
Other salaried staff:						
Professional staff (average 1998 $57, 1997 $51)	21	1,028	172	1,200	33	1,667
Clerical staff (average 1998 $32, 1997 $27)	13	352	66	418	25	674
Non-salaried staff:						
Clerical staff (average 1998 $26, 1997 $34)	6	139	17	156	6	202
	60	2,940	551	3,491	82	3,902
Severance	-	65	-	65	-	493
Decrease in pension liability	-		(286)	(286)	-	(273)
Increase (decrease) in salary/ vacation accruals	-	6	(1)	5	-	(31)
Total salaries and benefits	60	$ 3,011	$ 264	$ 3,275	82	$ 4,091

[a] Salary includes regular base pay, overtime, achievement bonuses and Board of Directors fees.

[b] Benefits includes the Company's share of all employee benefits and contributions or payments made on behalf of employees including pension, health care, dental coverage, group life insurance, accidental disability and dismemberment insurance, short-term disability plan and vacation payouts.

[c] Automobile provided, no amount included for benefits.

[d] This position replaces the position of Vice President, Finance and Administration, who was on medical leave for a portion of the 1997 year.

10 Operations

	1998	1997
Salaries and benefits (Note 9)	$ 3,275	$ 4,091
Communications	457	361
Occupancy	447	487
Legal and other fees	295	404
Loss (gain) on property held for sale	285	(7)
Amortization of capital assets	153	131
Board of Directors fees (Note 9)	45	83
Other	379	415
	$ 5,336	$ 5,965

11 Financial instruments

Fair values:

Estimated fair value approximates amounts at which financial instruments could be exchanged in an arm's length transaction between willing parties who are under no compulsion to act. Many of the Company's financial instruments lack an available trading market, so fair values are based on estimates using present value techniques which are affected by assumptions concerning the timing of future cash flows and discount rates. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The Company has determined the fair value of its financial instruments as follows:

(a) Cash, accounts receivable, accounts payable and accrued expenses:

The carrying amount on the balance sheet approximates fair value because of the short-term nature of these instruments.

(b) Loans receivable:

Fair value was not established for the loan portfolio due to there being no established market for the developmental loans made by the Company. With no available market information and the diverse nature of the loan portfolio it was not deemed practicable to determine the fair value with sufficient reliability.

(c) Notes payable and debentures payable:

The estimated fair values of the Company's debt instruments are as follows:

	1998		1997	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
Notes payable	$ 71,783	$ 72,119	$ 42,493	$ 41,906
Debentures payable	5,977	6,081	18,742	19,527
	$ 77,760	$ 78,200	$ 61,235	$ 61,433

Credit risk management:

Credit risk arises from the potential for borrowers to default on their contractual loan obligations. Credit exposure on the Company's loan portfolio is managed through due diligence and account administration. To minimize the credit risk associated with the loans the Company requires security agreements and personal guarantees on all loans.

Interest rate risk management:

The Company manages interest rate risk by borrowing a mix of short-term and long-term debt through the Province of Alberta at fixed interest rates and terms designed to match the average terms of the Company's loan portfolio.

Cash is deposited in the Province of Alberta's Consolidated Cash Investment Trust Fund which is managed with the objective of providing a competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high-quality short-term and mid-term fixed income securities with a maximum term to maturity of five years.

12 Contingent liabilities

Guarantees of bank loans:

The Company is contingently liable as a guarantor of bank operating lines of credit as follows:

	1998	1997
Export guarantees	$ 2,085	$ 2,540
Guarantees	1,648	2,133
	$ 3,733	$ 4,673

Legal actions:

There are claims against the Company totalling approximately $3,859,000. The Company considers that a valid defence exists in every instance and no material loss is anticipated.

General:

In the event that the Company incurs a loss on the foregoing matters, the loss will be accounted for as a charge to income in the year that the loss is determined.

13 Commitments

Unimplemented authorizations:

	1998	1997
Loans	$ 12,502	$ 14,165
Export guarantees	$ 250	$ 165
Guarantees	175	878
	$ 425	$ 1,043

Operating leases:

The Company has obligations under long-term, non-cancellable operating leases for premises. These leases generally have five year terms, include five year renewal options, and provide for payment of operating expenses and real estate taxes in excess of the amounts established at the commencement of the leases. The future minimum lease payments and estimated related costs for each of the next five years are as follows:

1999	$ 325
2000	284
2001	231
2002	210
2003	5
	$ 1,055

14 Budget

The 1998 budget was approved by Management on December 11, 1996 and is presented for comparison with the 1998 actual figures.

15 Comparative figures

Certain 1997 figures have been reclassified where necessary to conform to 1998 presentation.

Authorizations for Fiscal Year 1998

	Loans & Guarantees		Export Guarantees	
	#	$	#	$
Applications Received	547	84,215,400	8	2,970,000
Loans & Guarantees Authorized	360	48,932,200	8	2,970,000
Cancellations	52	5,579,000		
Net Authorizations Made	308	43,353,200	8	2,970,000
Average Amount		140,800		371,300
Median Amount		76,800		200,000
Net Authorizations by Size				
50,000 & under	117	3,036,300		
50,001 to 100,000	70	5,185,100	2	160,000
100,001 to 200,000	51	7,191,300	2	315,000
200,001 to 500,000	55	17,012,000	1	245,000
Over 500,000	15	10,928,500	3	2,250,000
Net Authorizations by Purpose				
Establish New Business	50	5,881,300		
Expand Existing Business	213	27,713,700	8	2,970,000
Purchase Existing Business	45	9,758,200		
Net Authorizations by Region				
Northern Alberta	83	13,479,300	1	245,000
Central Alberta	57	8,303,200	1	750,000
Southern Alberta	61	9,270,500		
Edmonton	48	4,131,700	6	1,975,000
Calgary	59	8,168,500		

Loans and Guarantees

Authorizations to March 31

	1998		1997		1996		1995	
	#	$	#	$	#	$	#	$
Applications Received	555	87,185,400	572	79,307,100	730	77,772,500	867	80,740,500
Loans & Guarantees Authorized	368	51,902,200	354	45,171,600	399	37,196,700	477	36,658,600
Cancellations	52	5,579,000	49	6,995,000	59	7,113,200	70	7,021,900
Net Authorizations Made	316	46,323,200	305	38,176,600	340	30,083,500	407	29,636,700
Average Amount		146,600		125,200		88,500		72,800
Median Amount		78,800		61,600		39,700		37,400

Net Authorizations by Size

50,000 & under	117	3,036,300	137	3,146,500	215	3,784,300	273	4,893,000
50,001 to 100,000	72	5,345,100	69	5,362,100	52	3,900,300	49	3,805,500
100,001 to 200,000	53	7,506,300	58	8,427,700	36	5,581,600	47	7,230,700
200,001 to 500,000	56	17,257,000	25	8,455,300	25	8,142,500	33	9,865,500
Over 500,000	18	13,178,500	16	12,785,000	12	8,674,800	5	3,842,000

Net Authorizations by Purpose

Establish New Business	50	5,881,300	42	2,492,200	123	5,756,100	157	3,455,500
Expand Existing Business	221	30,683,700	226	30,949,900	170	18,184,400	200	21,622,200
Purchase Existing Business	45	9,758,200	37	4,734,500	47	6,143,000	50	4,559,000

Net Authorizations by Region

Northern Alberta	84	13,724,300	79	8,728,900	60	7,139,100	78	7,604,400
Central Alberta	58	9,053,200	52	5,547,100	68	6,370,000	75	5,327,800
Southern Alberta	61	9,270,500	62	5,448,300	60	5,537,200	56	4,938,400
Edmonton	54	6,106,700	49	7,707,000	73	3,607,200	75	4,215,100
Calgary	59	8,168,500	63	10,745,300	79	7,430,000	123	7,551,000

Total Net Authorizations by Region (to March 31, 1998)

Northern Alberta	2,040	226,007,100
Central Alberta	1,619	171,627,000
Southern Alberta	1,780	173,967,400
Edmonton	1,282	123,685,700
Calgary	1,508	139,666,800

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Calgary

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Calgary

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Calgary

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Edmonton
Appointed March, 1998

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Carmangay
Retired December, 1997

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Medicine Hat
Appointed March, 1998

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Red Deer
Appointed March, 1998

M. Barry Holmes, C.A.
Rocky Mountain House
Appointed March, 1998

Michael C. Procter
Peace River

George W. Renner
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Retired December, 1997

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Senior Vice President and
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Mag R. Greipl
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